Economic Performance

For economic and democratic reforms to be sustained, solid macro-economic performance needs to ensue, namely, macroeconomic stability and robust economic growth. In addition, for these macro-economic trends to occur (and to be sustained), certain key economic structural changes need to take place, including increasing the proportion of the private sector share of the economy and increasing the competitiveness of the economy. Seven primary indicators are tracked to assess progress in economic performance (*Tables 6* and *7*; *Figures 15-19*): (1) export share of GDP; (2) employment in the small and medium enterprise sector as a percent of total employment; (3) foreign direct investment; (4) private sector share of GDP; (5) external debt as percent of GDP; (6) inflation; and (7) economic growth.

Overall, macro-economic performance in recent years has been impressive in a large majority of the transition economies. This can no doubt be attributed in no small part because key economic structural changes since the transition began have been significant. By most economic performance measures, the Northern Tier CEE countries continue to outperform the rest of the transition countries.

Economic growth has been impressive among the transition countries in recent years (*Figure 15*). Since 2000, the transition region as a whole has witnessed annual economic growth rates of roughly 5% or higher. These rates (from 2000-2004) have exceeded the global economic growth rates, though the difference has been narrowing. Economic growth has been particularly high in Eurasia, averaging about 8% in 2003-2004.

For much of the Eurasian countries, much of these high growth rates have stemmed in no small part from high and rising prices of key primary product exports (particularly oil and gas, various metals, and cotton). Another contributing factor, however, has been the very significant drops in output through most of the 1990s. Recent surges in economic growth, in other words, have been a response in part to earlier collapses in output. *Figure 16* shows that on average, official GDP in Eurasia today is still only roughly 80% of what it was in 1989. It is not much higher in the Southern Tier CEE countries on average (87%). Hence, while the fastest growing economies in recent years have been in Eurasia, it has been primarily the economies of the Northern Tier CEE countries that have been able to sustain relatively robust economic growth over a long period to the point where they are well above pre-transition income levels.[11]

Impressive economic growth has been accompanied by generally impressive strides towards macro-economic stability in most of the transition countries. Inflation rates are now single-digit in all but a handful of economies in the region: Belarus (2004 estimate

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[11] There are several exceptions to this trend, perhaps anomalous at least at first examination: the three Eurasian slow-reformers all have current GDP in excess of 1989 GDP (Turkmenistan: 113%; Uzbekistan: 109%; and Belarus: 106%), and Albania (139%). In the case of Uzbekistan and Belarus, however, these figures are largely a reflection that, unlike across all the other transition economies in Eurasia, Uzbekistan and Belarus have not experienced a dramatic drop in output during the transition. Turkmenistan has benefited from high economic growth rates due to primary product exports (gas and cotton).

of 19%); Uzbekistan (12%); Romania (12%): Russia (11%) and Moldova (10%). The three year inflation rate average (2001-2003) in the Northern Tier CEE countries was only 3.5%; in the Southern Tier CEE: 6.1%; and in Eurasia 10.1% (*Table 7*).

With a few exceptions, external debt is manageable if not low (*Table 7*). Where it has been high and particularly burdensome (i.e., among the poorest Eurasian countries), it has been falling, including in Kyrgyzstan (where debt to GDP in 2003 was highest of all the transition countries, 103%), Moldova (89%), and Tajikistan (65%). Where external debt has been relatively high and increasing, it has been among the more advanced CEE countries (notably Estonia, Latvia, and Croatia) and high growth Eurasian countries (Kazakhstan).

Virtually all the transition countries have seen very significant increases in the private sector share of GDP (*Figure 17*) since the collapse of communism. However, the competitiveness and, similarly, the composition of these private sectors appear to vary widely.

Private sector shares are largest, not surprisingly, in the Northern Tier CEE countries (76% in 2004). However, most other transition countries have private sector shares that are approaching this level. The striking exceptions are the three Eurasian slow-reformers: Belarus and Turkmenistan have private sectors that are only 25% of official GDP; Uzbekistan, 45%.

Export shares of GDP are much larger in the Northern Tier CEE countries than elsewhere in the transition region (*Figure 18*); at least twice as large on average as compared to the Southern Tier CEE countries and Eurasia by one measure of export share.[12] Outward-orientation has increased significantly in CEE since 1990. The trend is ambiguous in the case of Eurasia: one export share measure (exports as % of PPP GDP) shows relatively little change since 1990; while the other (exports as % of US$ GDP) shows a notable increase in outward-orientation since the mid-1990s.

Data on the size of the small and medium enterprise sectors (SMEs) are hard to come by and remain incomplete (*Table 6*). There are data missing for some countries, and trends over time are available in only a small set of the transition countries. Nevertheless, there are some stark cross-country comparisons that can be made from the available data. In particular, the SME sectors in the CEE countries (as measured by employment in SMEs as a proportion of total employment) are much larger than those in Eurasia. Roughly 45% of employment in the Northern Tier CEE countries comes from SMEs. This compares to 37% in the Southern Tier CEE countries and only 12% in Eurasia.[13] As with export sectors, there is still scope for expansion of the SME sectors even in the CEE countries: SMEs employ 68% of the work force in the EU-15, and 53% in the United States.

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[12] This indicator is measured by using GDP in purchasing power parity terms in the denominator.
[13] These differences would likely be substantially reduced if informal employment figures were included.

Cumulative foreign direct investment per capita continues to be far and away much higher in the Northern Tier CEE countries than elsewhere in the transition region (*Figure 19* and *Table 6*); total cumulative FDI per capita in the Northern Tier CEE is more than three times the amount in the Southern Tier CEE and closer to six times the volume in Eurasia. Moreover, FDI continues to increase at a greater rate in the Northern Tier CEE than in the Southern Tier CEE and Eurasia.

Table 6. Indicators of Sustainability: Economic Structure

	Export Share of GDP (2002)		% PPP GDP Export Share of GDP (1990-91)	SME Share of Employment (1998)		SME Share of Employment (1990-94)	FDI Cumulative per capita (1989-04)		Private Sector Share of GDP (2004)	
Czech Republic	28.1	4.5	16.4	42.0	3.5	25.0	4,126	5.0	80	5.0
Estonia	32.9	5.0	29.4	---		---	2,920	5.0	80	5.0
Hungary	31.2	5.0	11.9	50.0	4.0	35.0	2,510	5.0	80	5.0
Slovakia	25.0	4.0	10.0	---		---	2,165	5.0	80	5.0
Poland	13.0	2.0	8.2	42.0	3.5	19.0	1,228	3.5	75	4.5
Lithuania	20.8	3.5	11.9	40.0	3.5	25.0	1,210	4.0	75	4.5
Bulgaria	14.5	2.5	10.6	50.0	4.0	---	980	3.0	75	4.5
Albania	6.0	1.0	2.5	9.5	0.5	---	485	2.0	75	4.5
Armenia	7.3	1.0	12.0	---		---	318	1.5	75	4.5
Kyrgyzstan	7.8	1.0	4.6	63.2	4.5	---	102	1.0	75	4.5
Latvia	17.7	3.0	22.6	50.0	4.0	40.0	1,635	4.5	70	4.0
Romania	11.1	2.0	5.0	37.2	3.5	---	572	2.0	70	4.0
Russia	10.1	1.5	7.5	13.0	1.0	5.0	36	0.5	70	4.0
Slovenia	34.9	5.0	35.9	---		---	1,647	4.5	65	3.5
Kazakhstan	13.3	2.0	---	12.9	1.0	12.0	1,270	4.0	65	3.5
FYR Macedonia	10.9	1.5	10.1	18.0	1.0	---	601	2.5	65	3.5
Georgia	8.0	1.5	13.8	7.3	0.5	---	327	1.5	65	3.5
Ukraine	9.8	1.5	6.7	5.4	0.5	4.0	155	1.5	65	3.5
Croatia	22.6	3.5	22.7	62.0	4.5	---	2,202	5.0	60	3.0
Azerbaijan	10.2	1.5	---	5.3	0.5	---	1,268	4.0	60	3.0
Serbia & Mont.	8.0	1.3	---	29.0	2.0	---	426	2.0	50	2.0
Bosnia & Herzegovina	8.0	1.3	---	---		---	392	1.5	50	2.0
Moldova	13.9	2.0	23.9	---		---	223	1.5	50	2.0
Tajikistan	11.6	2.0	9.1	35.9	3.5	---	35	0.5	50	2.0
Uzbekistan	7.1	1.0	---	---		---	46	0.5	45	1.5
Turkmenistan	---		---	---		---	283	1.5	25	0.5
Belarus	18.2	3.0	21.6	4.6	0.5	2.0	211	1.5	25	0.5
CEE & Eurasia	15.5	2.4	14.1	30.4	2.4	18.6	1014	2.7	64	3.4
Northern Tier CEE	25.5	4.0	18.3	44.8	3.7	28.8	2180	4.6	76	4.6
Southern Tier CEE	11.6	1.9	10.2	34.3	2.6	---	808	2.6	64	3.4
Eurasia	10.9	1.7	13.5	12.1	1.1	5.8	379	1.7	54	2.6
Northern Tier CEE at Graduation	24.1	3.8		48.3	3.8		898	2.8	71	4.1
Romania & Bulgaria 2002	12.0	1.8		43.5	3.3		519	2.3	70	4.0

Shaded columns represent ratings based on a 1 to 5 scale, with 5 representing most advanced.
World Bank, *World Development Indicators 2004* (2004), World Bank, *Transition: The First Ten Years* (2002); EBRD, *Transition Report 2004* (November 2004), EBRD, and Ayyagari, Beck, and Demirguc-Kunt, *Small and Medium Enterprises across the Globe: A New Database*, World Bank Policy Research Working Paper 3127, (August 2003).

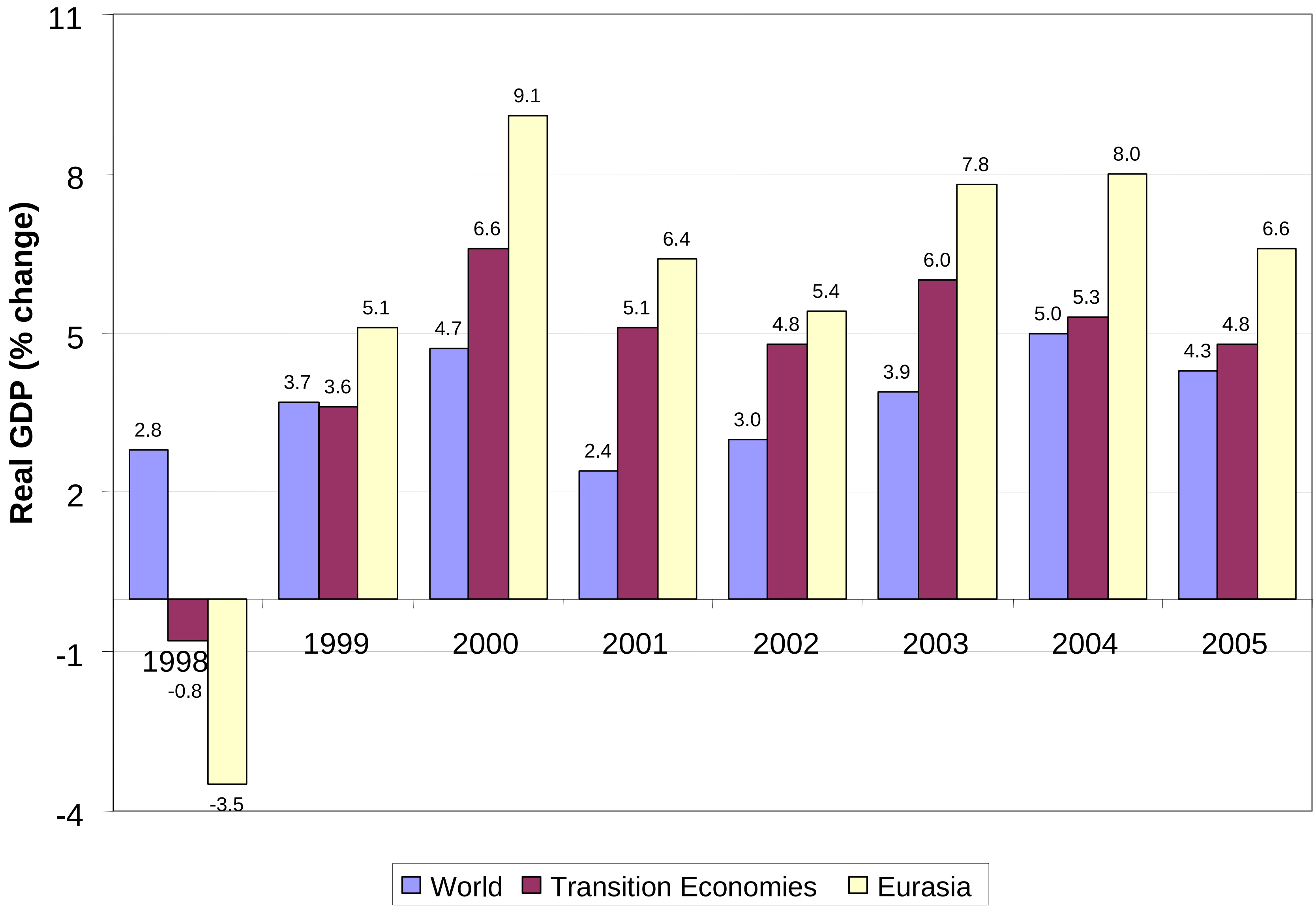
Table 7. Indicators of Sustainability: Macro-Economic Performance

	Debt as % of GDP		Years Since GDP Bottomed	Annual Average Growth Since GDP Bottomed	Inflation 3 Year Average		Consecutive Years Inflation Under 15%	GDP % of 1989 GDP	
	(2003)		(2004)	(2004)	(2001-03)		(2003)	(2004)	
Poland	50.2	3.0	13	4.2	2.0	5.0	6	142	5.0
Albania	23.1	4.5	7	7.5	3.7	4.5	6	139	5.0
Slovenia	53.0	3.0	8	3.8	5.6	4.0	5	129	4.5
Hungary	62.3	2.5	11	3.5	5.4	4.0	5	120	4.0
Slovakia	56.3	2.5	11	4.3	6.4	4.0	5	120	4.0
Turkmenistan	34.8	4.0	7	11.2	8.6	3.5	5	113	4.0
Czech Republic	33.4	4.0	6	2.7	1.7	5.0	6	112	4.0
Uzbekistan	49.4	3.0	9	3.2	16.6	2.5	1	109	3.5
Belarus	8.2	5.0	9	5.8	30.1	0.5	0	106	3.5
Estonia	70.5	2.0	5	6.0	2.8	5.0	8	106	3.5
Kazakhstan	76.8	1.5	6	8.7	6.3	4.0	5	102	3.5
Romania	34.6	4.0	5	4.4	16.6	2.5	0	97	3.0
Armenia	38.0	3.5	11	7.4	4.5	4.5	6	96	3.0
Croatia	81.8	1.5	5	4.0	2.2	5.0	6	94	3.0
Lithuania	40.6	3.5	5	6.5	0.2	5.0	6	89	2.5
Latvia	82.6	1.5	9	6.0	3.7	4.5	6	89	2.5
Bulgaria	65.6	2.0	7	4.3	4.7	4.5	6	88	2.5
Russia	42.1	3.5	6	6.5	13.3	3.0	0	85	2.5
FYR Macedonia	38.7	3.5	3	2.2	2.1	5.0	6	80	2.5
Kyrgyzstan	102.9	1.0	9	4.9	3.8	4.5	6	79	2.0
Azerbaijan	21.1	4.5	9	8.6	3.4	4.5	6	79	2.0
Tajikistan	64.8	2.5	8	6.8	11.6	3.0	0	68	1.5
Bosnia & Herzegovina	34.9	4.0	11	17.4	-0.4	5.0	6	59	1.0
Ukraine	29.7	4.0	5	7.0	4.7	4.5	6	57	1.0
Serbia & Mont.	68.9	2.0	5	3.7	13.7	3.0	0	55	1.0
Georgia	49.5	3.0	10	5.4	5.5	4.0	5	44	0.5
Moldova	89.2	1.0	5	5.4	9.0	3.5	5	44	0.5
CEE & Eurasia	52	3.0	8	6.0	7.0	4.0	4.0	93	2.8
Northern Tier CEE	56	2.8	9	4.6	3.5	4.6	5.8	113	3.8
Southern Tier CEE	50	3.1	6	6.2	6.1	4.2	4.1	87	2.6
Eurasia	48	3.2	8	6.6	10.1	3.5	3.4	80	2.2
Northern Tier CEE at Graduation	45	3.3			67.8	2.0		90	2.8
Romania & Bulgaria 2002	52	3.0			12.3	3.3		83	2.5

Shaded columns represent ratings based on a 1 to 5 scale, with 5 representing most advanced.
EBRD, *Transition Report 2004* (November 2004).

Figure 15

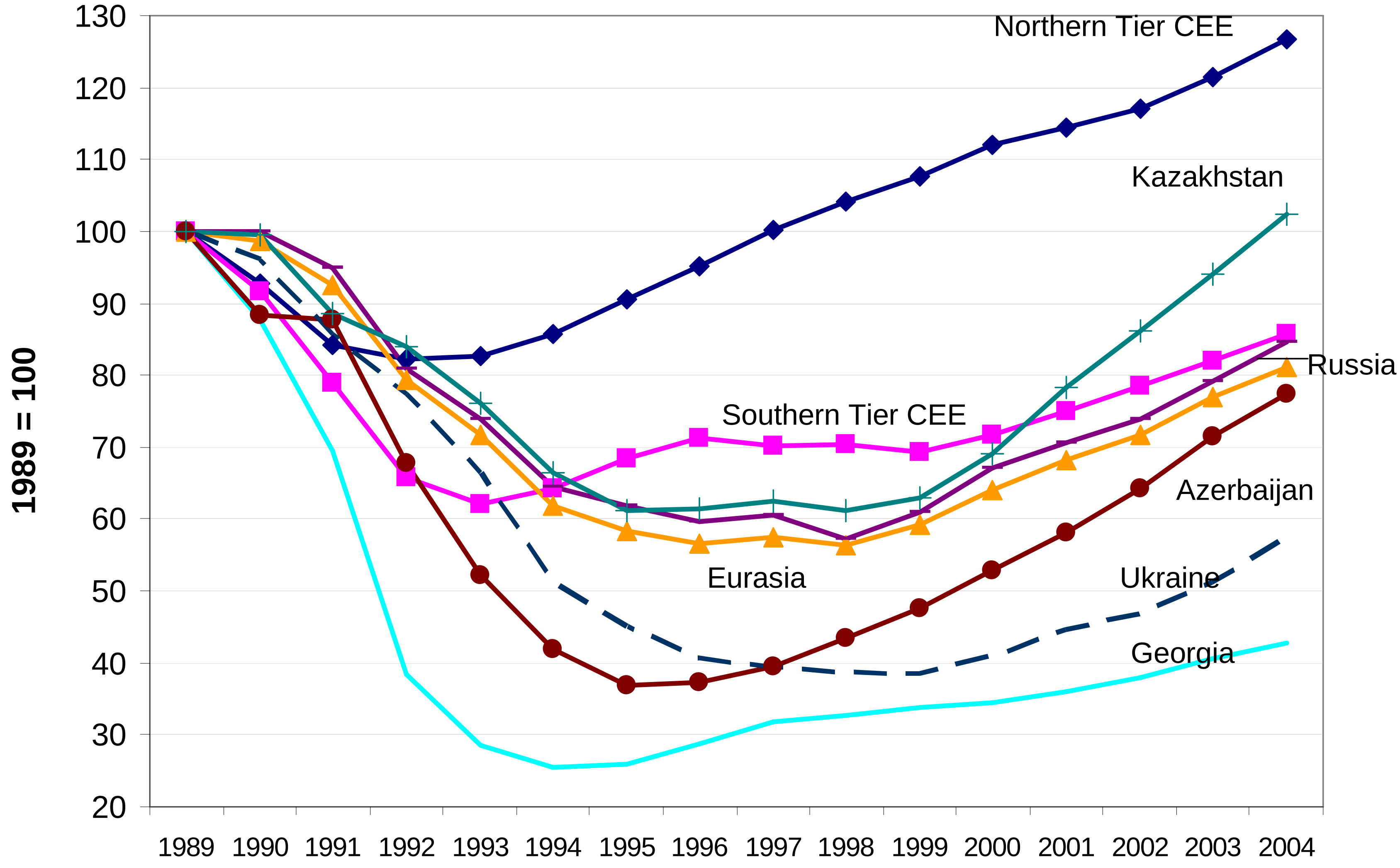
Economic Growth Trends Worldwide



USAID; and IMF, *World Economic Outlook* (September 2004).

Figure 16

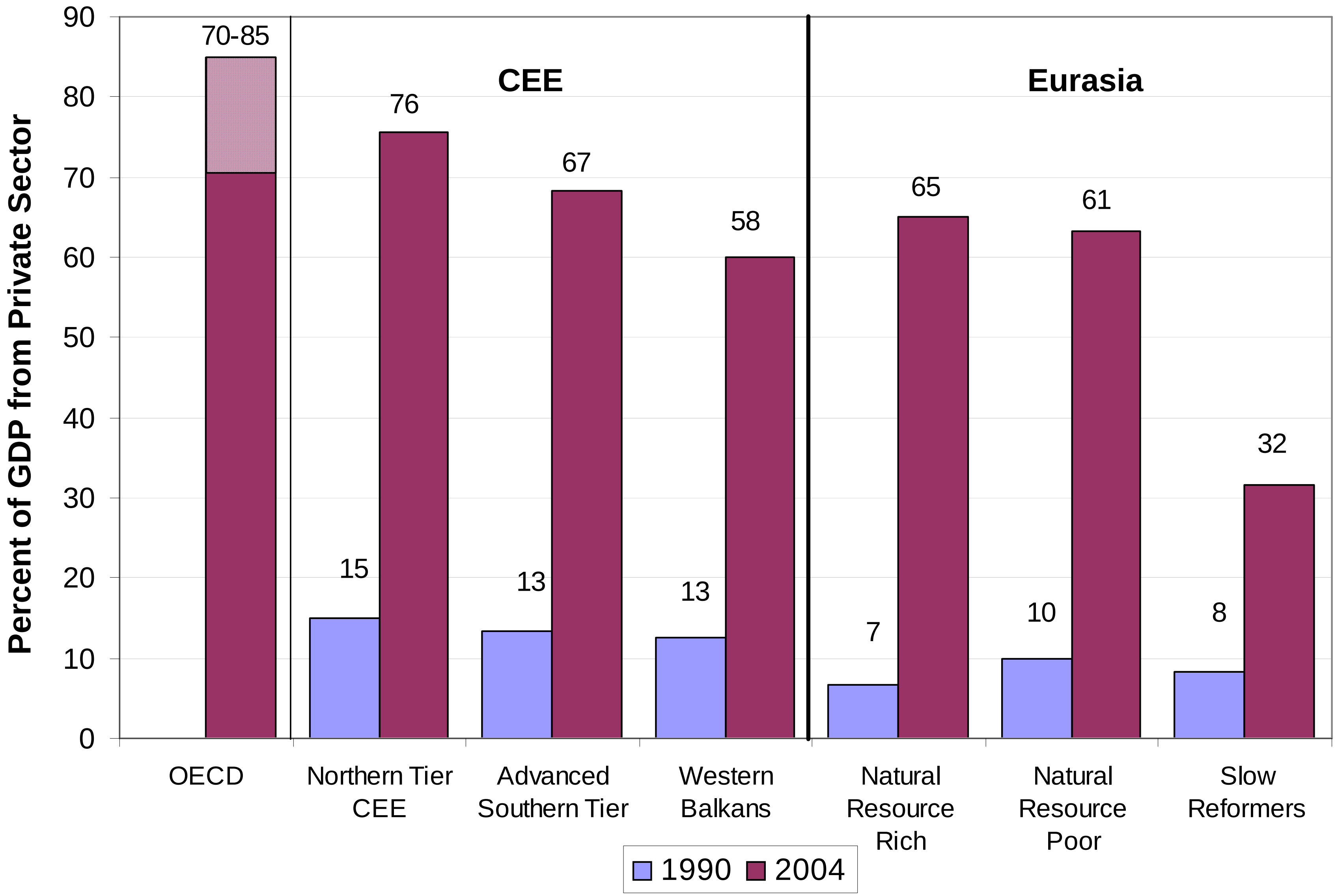
Real GDP as % of 1989 GDP



EBRD, *Transition Report 2004* (November 2004).

Figure 17

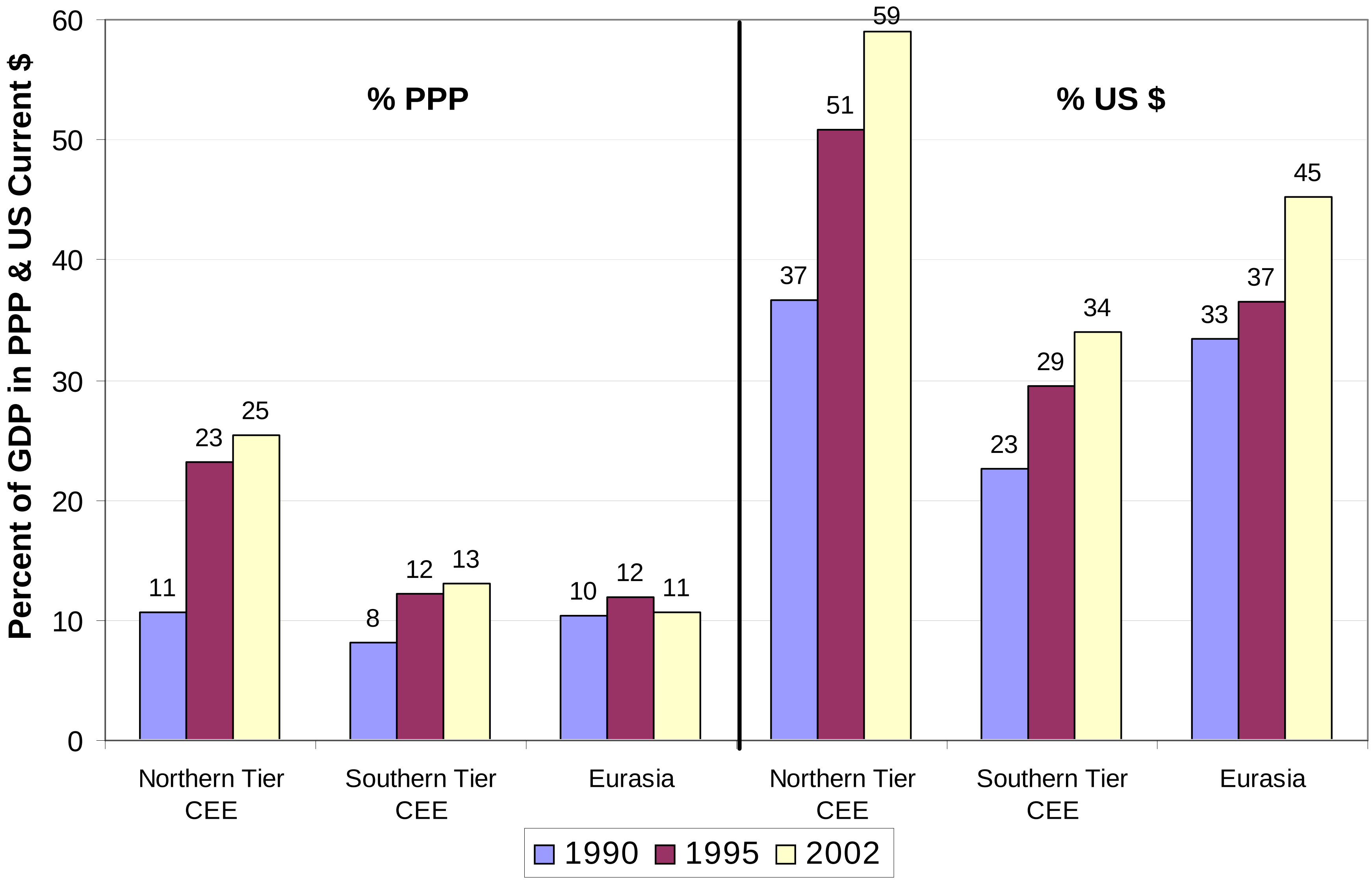
Private Sector Share of GDP in 1990 & 2004



EBRD, *Transition Report 2004* (November 2004 and earlier editions).

Figure 18

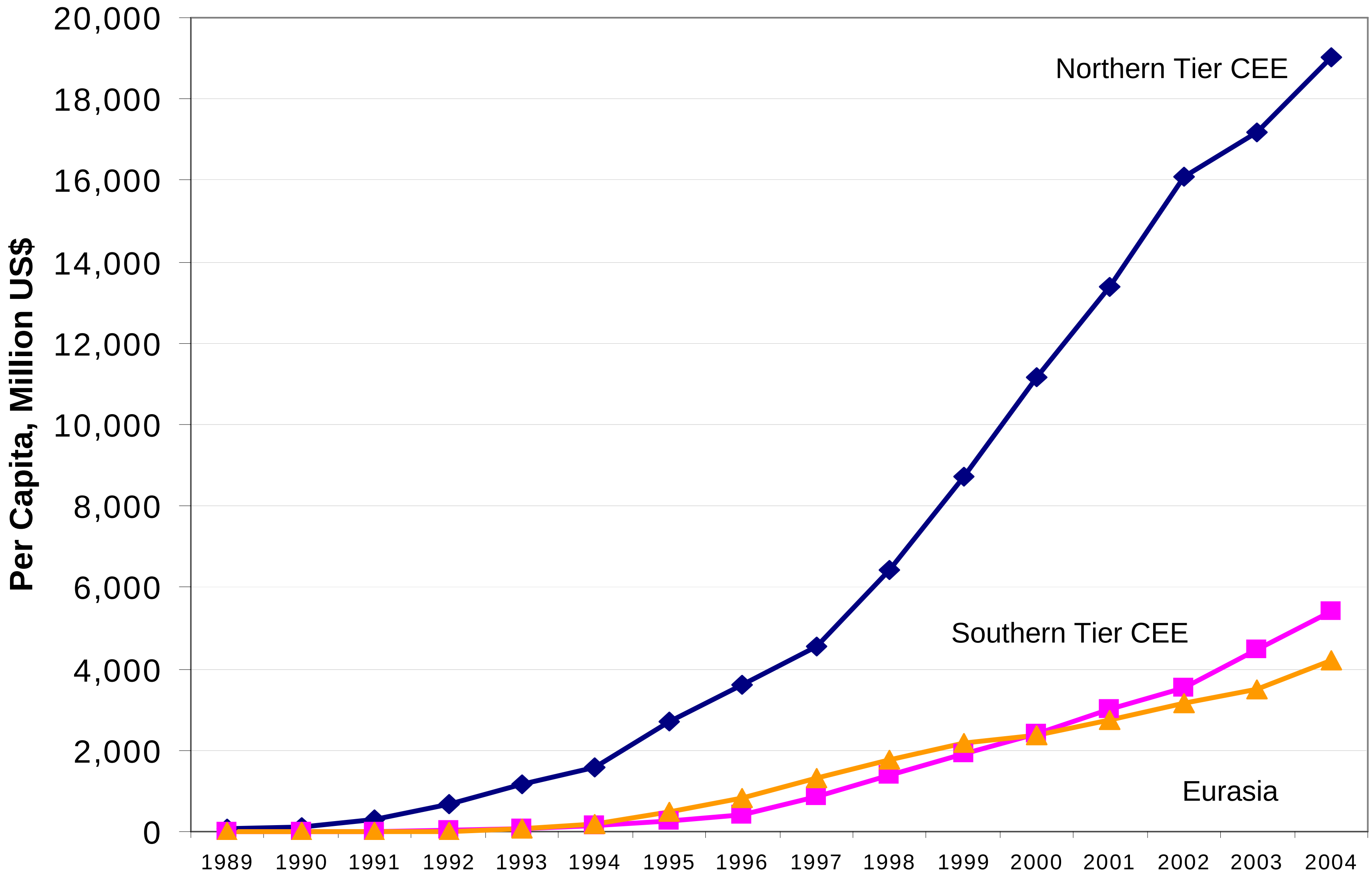
Export Sector Share of GDP



USAID drawing from World Bank, *World Development Indicators* (2004).

Figure 19

Cumulative FDI per capita, 1989-2004



EBRD, *Transition Report* (November 2004).